

THE BERKSHIRE GAS COMPANY

D.T.E. 03-_____

Direct Testimony

of

Karen L. Zink

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1 **Q. Please state your name, employer and business address.**

2 A. My name is Karen Zink. I am employed by The Berkshire Gas Company
3 ("Berkshire" or the "Company") and my business address is 115 Cheshire Road,
4 Pittsfield, MA 01201.

5 **Q. What is your position with Berkshire?**

6 A. I am Vice President and General Manager.

7 **Q. Please describe your educational and professional background.**

8 A. I graduated from Central Connecticut State University in 1979 with a Bachelor of
9 Science degree in Finance and from Western New England College in 1997 with
10 a Masters of Business Administration. I have held several positions with the
11 Company including Supervisor of Financial Services, Supervisor of Planning,
12 Manager of Rates and Planning, Director of Rates, Regulation and Resource
13 Planning and Vice President of Marketing and Resource Planning. I was
14 promoted to my current position in 2003.

15 **Q. Please summarize your responsibilities as Vice President and General**
16 **Manager.**

17 A. As Vice President and General Manager, I have responsibility for all aspects of
18 the Company's operations, including the chief financial officer functions. In that
19 capacity, I am responsible for all aspects of the Company's financial operations

1 including cash management, the development and implementation of long-term
2 finance plans, and overall supervision of the General Accounting Department.

3 **Q. Have you testified as a witness in any other proceedings involving the**
4 **Company before this Department?**

5 A. Yes. I testified as a witness in the Company's last three base rate cases
6 regarding cost of service, rate design, revenue and weather normalization, and a
7 price-cap mechanism (D.P.U. 90-121; D.P.U. 92-210; and, D.T.E. 01-56).
8 Further, I actively participated in the Massachusetts Gas Collaborative effort in
9 developing model terms and conditions pursuant to D.T.E. 98-32 and D.T.E. 00-
10 13, and sponsored the Company's unbundled rate initiative in D.T.E. 98-65.
11 Also, I have testified as a witness on many gas supply related issues including
12 the Company's requests for approval of a LNG supply contract (D.T.E. 98-110)
13 and supply contracts with EnCana Corporation (D.T.E. 02-56) and BP Energy
14 Company (D.T.E. 02-81); for approval of the Company's most recent Forecast
15 and Supply Plans (D.T.E. 98-99 and D.T.E. 02-17); for approval of the
16 Company's seasonal cost of gas adjustment revision (D.T.E. 01-10); and for
17 approval of the Company's alliance arrangement between BP Energy Company
18 and the Energy East Corporation gas distribution companies, including Berkshire
19 (D.T.E. 01-41 and D.T.E. 02-19).

20 **Q. Please describe the various industry groups of which you are a member.**

21 A. I am a member of the Northeast Gas Association, formerly known as the New
22 England Gas Association, and currently serve as the Chairperson of the Board of
23 Directors of the Marketing Division. I previously served on the General Board of

1 Directors and also served for several years as Chairperson of the Planning and
2 Rates Committee. Finally, I am a member of the Guild of Gas Managers.

3 **Q. What is the purpose of your testimony?**

4 A. I am pleased to describe to the Department the Company's request for the
5 approval of the Company's proposed financing plan. The plans seeks authority
6 for the Company's issuance and sale, from time to time during the period ending
7 January 31, 2007, of up to \$20,000,000 aggregate amount (based upon face
8 amount) of long-term debt securities. The net proceeds of such issuances and
9 sales will be applied: (a) for the payment at maturity of certain outstanding long-
10 term indebtedness and equity securities; (b) for the payment of capital
11 expenditures for properly capitalizable additions to property, plant and
12 equipment, or for the payment of obligations of the Company incurred for such
13 expenditures; (c) for the refinancing of short-term and long-term securities; (d) for
14 general working capital purposes; and/or (e) for such other purposes as the
15 Department may authorize. In addition, the proposed financing plan
16 contemplates the use of interest rate hedging transactions, including "treasury
17 locks." Importantly, the Company's proposed financing plan coincides with the
18 timing of the mid-period review of the Price Cap Mechanism Plan ("PCM Plan")
19 approved in The Berkshire Gas Company, D.T.E. 01-56 (2002) and, thus, both
20 the costs and risks of the plan are borne by the Company.

21

1 **Q. Please describe Schedule KLZ-1 that contains the Balance Sheet for the**
2 **Company dated June 30, 2003, Schedule KLZ-2 that contains the**
3 **Company's schedule of capital stock and premium as of June 30, 2003 and**
4 **Schedule KLZ-3 that contains a statement of the Company's long-term debt**
5 **as of June 30, 2003.**

6 **A.** These Schedules describe Berkshire's assets, liabilities and capitalization and
7 show that at June 30, 2003, Berkshire had issued and outstanding:
8 \$257,400 Cumulative Preferred Stock, \$100 par value, 4.8% Series.
9 \$100 Common Stock (\$2.50 par value).
10 \$98,451,069 Premium on Common Stock.
11 In addition, at June 30, 2003 the Company had outstanding the following long-
12 term debt securities:

Security		Maturity Date		Principal Amount
Series P First Mortgage Bonds, 10.06%		February 1, 2019		\$10,000,000
Senior Notes, 7.80%		November 15, 2021		\$16,000,000
Note, Variable Rate		April 1, 2004		\$6,000,000
Senior Notes, 9.60%		September 1, 2020		\$8,000,000
Term Note, Variable Rate		September 30, 2003		\$4,705,400
TOTAL				\$44,705,400

13 Further, the Company maintains credit arrangements with several banks through
14 a syndicated line of up to \$15,000,000, which provide for short-term borrowings
15 by the Company. As of June 30, 2003, the Company had approximately

1 \$4,000,000 of short-term borrowings outstanding pursuant to such credit
2 arrangements.

3 **Q. Please describe Schedule KLZ-4.**

4 A. Schedule KLZ-4 shows the Company's capitalization ratios based upon the
5 June 30, 2003 Balance Sheet. Schedule KLZ-4 indicates that long-term debt
6 comprised 29.5% of the total capitalization of the Company, Preferred Stock
7 0.2% and Common Stock 70.3%. Please note, the Common Equity ratio
8 includes goodwill in the calculation. If goodwill of \$60,660,000 is excluded, the
9 Common Equity ratio would be 50.6%.

10 **Q. Please describe Schedule KLZ-5.**

11 A. Schedule KLZ-5 is based upon the Balance Sheet provided in Schedule KLZ-1.
12 Berkshire has traditionally presented this analysis to the Department in any
13 Petition for approval of the issuance and sale of securities. It represents a way of
14 determining the excess of the Company's net plant balances over the amount of
15 securities outstanding. This analysis furthers the Department's application of the
16 so-called "net plant" test. Schedules KLZ-5 and KLZ-5a show the capitalizable
17 plant balance less reserves for depreciation and amortization against which
18 securities have not been authorized by the Department as of June 30, 2003.
19 These Schedules show that the Company has an excess of securities and debt
20 on a pro forma basis of \$684,000 on June 30, 2003 but shows on Schedule KLZ-
21 5a that on March 31, 2003 it had a sufficient balance of total capitalizable plant
22 less reserves for depreciation against which up to approximately \$20,000,000
23 aggregate amount of debt securities may be authorized in this proceeding after

1 taking into account the planned redemption of certain long-term debt securities in
2 2003 and 2004. The change from March 31 to June 30 was due to an
3 extraordinarily low amount of capital spending during the quarter due to the
4 effects of a work stoppage experienced at the Company. Berkshire believes that
5 the March 31, 2003 schedule is a more representative analysis and shows
6 sufficient utility plant in excess of securities and debt. As described below, the
7 Company's planned construction (as well as the periodic redemption of its
8 preferred stock) will soon support this full amount of securities that the Company
9 has requested authority to issue.

10 **Q. Would you please describe the Company's proposed financing request?**

11 A. The proposed financing request will enable the Company to sell, from time to
12 time, one or more series of long-term debt securities consisting of (i) unsecured
13 notes ("Notes"); (ii) first mortgage bonds to be issued pursuant to the Company's
14 first mortgage indenture or some alternative indenture ("Bonds"), or (iii) other
15 evidences of indebtedness consisting of loans from a bank or syndicate of banks
16 and/or other institutional or governmental lenders such as one or more insurance
17 companies or certain governmental agencies ("Term Loans"), such Term Loans
18 to be either unsecured or secured by individual parcels of real property or other
19 specified assets.

20 **Q. Is the Company's Petition similar to prior petitions filed by other utilities for**
21 **prior authorization of plans to issue securities from time to time?**

22 A. The Company's Petition is comparable to similar financing petitions filed by the
23 Boston Edison Company and Commonwealth Electric Company. Boston Edison

1 Company, D.T.E. 00-62 and Commonwealth Electric Company, D.T.E. 02-51.

2 For example, in each of those petitions, these utilities requested and received
3 authority to issue from time to time, pursuant to a finance plan, between
4 \$200,000,000 and \$1,100,000,000 aggregate amount of debt and equity
5 securities. Berkshire proposes to implement a similar plan so that it might take
6 advantage of greater flexibility in the issuance of long-term debt securities.
7 Berkshire has also sought to align its financing plan with its PCM Plan for the
8 benefit of the Department and customers.

9 **Q. The Company's financing request contemplates the issuance of up to**
10 **\$20,000,000 of debt securities from time to time in order to satisfy the**
11 **Company's projected financing needs. Could you please describe how this**
12 **amount was derived?**

13 A. Schedule KLZ-6 provides a forecast of the proposed use of proceeds through
14 2006. During the 2003-2004 period, \$10,705,400 principal amount of the
15 Company's long-term debt will become due.

16 The Company has forecast expected capital expenditure levels and internally
17 generated funds for all years through 2006 and the forecasts are reflected in
18 Schedule KLZ-6. As shown on Schedule KLZ-6, total capital expenditures are
19 expected to be approximately \$25,000,000 for the four-year period, primarily
20 reflecting expenditures for major distribution projects.

21 The Company may also consider refinancing some or all of its short-term debt
22 balances with long-term securities if market conditions warrant. Short-term debt
23 is incurred by the Company for capital expenditures in advance of refunding such

1 debt with long-term securities, for working capital needs and for other corporate
2 purposes. At June 30, 2003, the Company had \$4,000,000 of short-term debt
3 outstanding.

4 Of the approximate \$39,793,400 of financing needs, approximately \$19,576,000
5 is expected to be funded from cash from operations, leaving approximately
6 \$20,000,000 that may be funded through external financing, as demonstrated on
7 Schedule KLZ-6.

8 **Q. How would the Company's capitalization be affected with the issuance of**
9 **the \$20,000,000 of long-term debt pursuant to this financing request?**

10 A. Schedules KLZ-7 and KLZ-7a present a pro-forma capital structure reflecting the
11 issuance of \$20,000,000 of debt securities. Schedule KLZ-7 presents the capital
12 structure including goodwill in the equity ratio while Schedule KLZ-7a presents
13 the equity ratio excluding goodwill. As noted in Schedule KLZ-6, the Company
14 assumed the redemption of certain outstanding long-term debt securities in 2003
15 and 2004.

16 **Q. What are the maximum rates on debt which the Company proposes for**
17 **purposes of this financing plan?**

18 A. For long-term debt, it is proposed that the interest rate may be a fixed rate not to
19 exceed an effective rate of 12% per annum or an adjustable rate which will vary
20 with a market index designated at the time of issue or in accordance with a
21 market auction mechanism but which will not exceed 18% per annum.

22

1 **Q. Why has the Company asked the Department to authorize the issuance of**
2 **securities up to a dollar limit?**

3 A. Other utilities in Massachusetts and across the country have been able to secure
4 substantial benefits for customers from the pre-approval of similar financing
5 plans. The Company also recognizes that the financial markets remain volatile
6 and are increasingly more complex. The flexibility provided by this financing plan
7 request allows for the issuance of securities at times necessary for the Company,
8 thereby enabling the Company to take advantage of market conditions. The
9 proposed limitations of the plan, together with the timing to coincide with the
10 PCM Plan mid-period review, adequately protect the interests of our customers
11 and enable the Department to evaluate and monitor the implementation of the
12 financing plan. Importantly, the Company will notify the Department upon the
13 issuance of any securities pursuant to this plan.

14 The Company notes the cost of capital associated with relevant debt securities
15 has fluctuated significantly over short periods of time, as have the relative costs
16 of different securities. This volatility in the long-term debt market is presented in
17 Schedule KLZ-8 that shows eight-year yields for both 30-year Treasuries and A-
18 rated Long-Term Gas Utility Debt.

19 Without the flexibility reflected in the Company's financing plan, the Department
20 would have to consider each individual issuance of securities contemplated by
21 the Company. The time lag for such review would likely result in added costs as
22 the Company would not be able to optimally time the market. The Company
23 believes that its financing plan request, therefore, provides significant economies

1 to both the Company and its customers as well as the Department, while at the
2 same time providing the Department full opportunity to exercise its regulatory
3 responsibilities.

4 **Q. Could you please describe the approximate current market for long-term**
5 **debt securities?**

6 A. Berkshire's debt is not rated. However, an assessment of Berkshire's credit
7 quality may be developed by an analysis of Standard & Poor's ratings
8 benchmarks. Schedule KLZ-9 provides a summary comparison of these
9 benchmarks to Berkshire's performance in terms of coverage ratios and capital
10 structure. Standard & Poor's criteria with respect to credit ratings for natural gas
11 distribution utilities suggest that Berkshire would likely be rated as a strong BBB
12 or a weak single A. The yield history for the period from July 1995 through June
13 2003 for long term debt issues for gas utilities with an A rating was provided in
14 Schedule KLZ-8.

15 **Q. Would you please describe in more detail the types of long-term debt**
16 **securities the Company may issue pursuant to this financing request?**

17 A. The Company proposes to issue long-term debt instruments with a maturity
18 greater than one year and not to exceed 40 years from the date of issuance. The
19 securities would carry either a fixed interest rate not to exceed the rate
20 established by the Department or an adjustable rate which will vary with a market
21 index to be designated at the time of issuance or in accordance with a market
22 auction mechanism but not to exceed a maximum rate. Maximum rates were
23

1 similarly authorized in the Department's considerations of other utility financing
2 plans. Such long-term debt instruments will be (i) unsecured Notes; (ii) Bonds
3 secured by the lien of the Company's first mortgage indenture or some
4 subsequent indenture; or (iii) Term Loans.

5 In addition, the Company may also seek to execute long-term bank loans with
6 various institutional lenders such as banks, insurance companies or
7 governmental agencies, depending on the terms and conditions that may be
8 imposed on the Company by such lenders and the cost of such borrowings.
9 Such Term Loans may be either unsecured or secured by individual parcels of
10 real property or other specified assets.

11 **Q. If and when the Company determines to issue and sell these long-term debt**
12 **instruments, how would it plan to market the securities?**

13 A. Depending on the type of security and market conditions at the time, the
14 securities would be sold from time to time consistent with the Company's
15 refinancing or cash requirements. The securities would generally be sold
16 pursuant to private offerings or in connection with the establishment of loan
17 facilities with one or more of the institutional lenders previously described. The
18 Company nevertheless requests authority to issue such securities in one or more
19 public offerings through one or more underwriters or agents.

20 **Q. Please describe the procedure for selling the securities in a public offering.**

21 A. To issue and sell the securities in public offerings, the Company would be
22 required to file a registration statement with the Securities and Exchange
23 Commission (the "SEC"). After a registration statement is declared effective by

1 the SEC, and, at such time or times as the Company determines to sell the
2 securities, the Directors of the Company and/or authorized officers would meet to
3 finalize the terms of the sale as authorized by the Department. The commission
4 to be paid to the underwriters or agents in a public offering would not be
5 expected to exceed 1% of the gross proceeds to the Company from the offering
6 of any debt securities.

7 **Q. Would you describe how the securities would be sold pursuant to a public**
8 **offering in a negotiated transaction?**

9 A. In a negotiated transaction, the registration statement is typically prepared by the
10 Company with input from the designated underwriter(s) or agent(s) and its
11 regular counsel. Prior to the filing of the registration statement with the SEC, the
12 underwriter(s) would hold several meetings to review market conditions with the
13 Company and help structure the transaction (e.g., market timing, size of issue,
14 maturity dates, redemption provisions) to obtain the best rates and prices in light
15 of market demands. After the registration statement is filed with the SEC, the
16 underwriter(s) or agent(s) would commence pre-marketing of the securities using
17 the preliminary prospectus. During this period, depending on the nature of
18 securities being offered, and the distribution of such securities, any underwriter(s)
19 could also begin forming a selling group or syndicate. During the pre-marketing
20 period the underwriter(s) or agent(s) determines and reports on the level of
21 interest of the investing public and advises the Company whether it could be
22 beneficial to alter the terms of the securities in any way or to change the type of
23 security to be offered. Pre-marketing is critical when the markets are volatile, the

1 market for the security is limited or there are other financial complexities that
2 require explanation for the investor to fully understand the Company. All
3 information collected by the underwriter during the pre-marketing period is
4 relayed back to the Company as well as information and suggestions from the
5 underwriter's economists, credit analysts and traders. The information collected
6 during the pre-marketing period allows the Company to identify and take quick
7 advantage of market windows in many instances within a four to six-hour period.
8 Pre-marketing may also increase interest and demand for the new issue allowing
9 for more aggressive pricing thus reducing the cost to our customers.

10 At such time as the Company (with advice from the underwriters as to market
11 conditions) determines to sell the securities, officers of the Company would enter
12 into negotiations with the underwriter(s) with respect to the final terms of the
13 offered security. After an agreement has been reached as to the terms of sale,
14 the Company and the underwriters would enter into a firm purchase agreement
15 and a final amendment to the registration statement or a prospectus supplement
16 would be filed with the SEC.

17 **Q. What alternative is there to a negotiated public offering?**

18 A. The Company could utilize a competitive bidding process to offer the new
19 securities to the public.

20 In a competitively bid transaction, the registration statement is prepared by the
21 Company without the assistance of a designated underwriter and that
22 underwriter's regular counsel. The registration statement is reviewed by counsel
23 for the Company and counsel designated by the Company to represent the

1 prospective underwriter. After the registration statement is filed with the SEC,
2 the Company would publish a notice of invitation for proposals in two or more
3 local daily newspapers, as required by Massachusetts General Laws, Chapter
4 164, § 15, and in a national newspaper, such as the Wall Street Journal. If the
5 issuance of securities is not subject to the competitive bid requirements of M.G.L.
6 c. 164, §15 (which is the case with preferred stock and common stock) or an
7 exemption had been obtained, the Company would send the invitation to a
8 number of prospective underwriters familiar with the Company rather than
9 publishing a notice as publishing a notice is expensive and often less effective.

10 The notice of invitation for proposals would include a specific description of the
11 securities to be issued (amount, redemption provisions, sinking funds,
12 minimum/maximum prices, etc.) so that each bid is expressed on the same basis
13 for comparison purposes. The invitation would also state that the Company will
14 give at least 48 hours notice of the date and time bids should be submitted (or 24
15 hours notice, if preliminary information has reached the prospective underwriters
16 in a timely fashion; however, this shorter time period may also limit the number of
17 underwriters willing to commit to a bid). Interested underwriters would be invited
18 to contact the Company to obtain copies of the offering materials including a
19 copy of the registration statement and the form of underwriting agreement
20 together with a form for submitting proposals to the Company. The Company
21 would prepare the underwriting agreement, like the registration statement, with
22 input from counsel for the Company and designated counsel for the underwriters.

23 After the registration statement is declared effective for bidding by the SEC, and

1 at such time as the Company determines to issue the new securities, the
2 Company would give notice by mail, phone or both to each underwriter who
3 expressed an interest of the date and time to submit bids. At the time and place
4 designated, each interested underwriter would submit by phone or hand delivery
5 a sealed bid which would include, among other terms, designation of the
6 proposed dividend rate (in the case of preferred or preference stock) or interest
7 rate (in the case of debt securities), the price to be paid to the Company, and the
8 underwriting commission for the proposed issue. At the time designated, all bids
9 would be opened and examined to determine which bid provided the lowest
10 effective cost of capital to the Company. At such time the Directors would meet
11 to approve the winning bid, thereby setting the terms of the new securities. All
12 other bids would be formally rejected at that time. In the event that the Company
13 was not satisfied with any of the bids, the Company could reject all bids. Once
14 the issue is priced and the purchase agreement signed, the procedures for
15 competitively bid transactions and negotiated transactions through closing of the
16 offering are identical.

17 **Q. What are the drawbacks of the competitive bid process?**

18 A. The principal differences between a negotiated transaction and a competitive bid
19 transaction are evident at two stages - during preparation of the registration
20 statement (and related documents) and at selection and pricing of the issue. In
21 each stage of the competitive bid process the Company is without the benefit of
22 the underwriter's knowledge and expertise both from a marketing perspective
23

1 (preparation of the prospectus and pre-marketing) and from a pricing perspective
2 (selecting a market “window”).

3 In addition, as we have indicated earlier in our testimony, the Company believes
4 that the flexibility of being able to select a form of security most appropriate to a
5 particular market condition while timing the issuance of such security to the
6 market “window” are two principal factors which generate capital cost savings.
7 To permit the Company to utilize fully those two factors requires that the
8 Company work very closely with the underwriters as market conditions change
9 both in terms of selecting the most appropriate security as well as monitoring
10 daily changes in interest rates and other market events which affect rates. The
11 competitive bid process inhibits the Company’s ability to vary the form and timing
12 of issuances that are advantageous in today’s complex and volatile market. As
13 the Department recognized in D.P.U. 92-253-A, “in such fluctuating securities
14 markets, negotiated transactions reasonably may benefit ratepayers and are
15 more appropriate than competitive bid placements.” (Page 20).

16 **Q. You mentioned that the securities might be sold in a private offering rather**
17 **than a public offering. Could you please describe a private offering?**

18 A. In a private offering the securities would be offered only to a small number of
19 qualified investors pursuant to an exemption from the registration provisions of
20 the Securities Act of 1933. The Company would not be required to file a
21 registration statement with the SEC. The securities would be offered either
22 directly to the investors or through a placement agent for a fee, which is not
23 expected to exceed 1%. In the case of a Term Loan, the Company would

1 negotiate directly with commercial banks to structure the terms and conditions of
2 the credit agreement.

3 **Q. How would the Company expect to issue debt securities in the form of**
4 **Term Loans?**

5 A. The Company would expect to enter into negotiations with several institutional
6 lenders or governmental agencies that may be willing to make long-term loans to
7 the Company. These lenders are expected to be identified through some form of
8 competitive solution initiated by the Company. The Company expects to
9 construct the form of such solicitation in order to reflect market conditions at that
10 time. The Company would be pleased to report on the outcome of any such
11 efforts when it reports on securities issued pursuant to this financing plan. Once
12 the Company had agreed with one or more of such lenders on the terms and
13 conditions of such a loan or loans, the Company and the lenders would enter into
14 a credit agreement which would set forth the specific terms and conditions
15 relating to the Term Loans.

16 **Q. What other benefits are there to the Company's proposed financing plan?**

17 A. The Company will consider employing, when appropriate, certain interest
18 hedging instruments including so-called "treasury locks." The use of this type of
19 interest rate management instrument is an important means by which the
20 Company may manage interest rate risk for the benefit of customers consistent
21 with its obligations under the PCM Plan.

22 Specifically, the Company may employ interest rate locks or other similar
23 products (such as caps or collars) as appropriate to manage interest costs and

1 “floating” rate exposure. For example, if the Company determines that market
2 conditions are attractive for a long-term financing and wishes to effectively “lock
3 in” then current rates prior to completing a transaction permissible under this
4 financing plan, the Company could employ an interest rate lock to ensure that the
5 benefit of such attractive rate is secured. Specifically, Berkshire might enter into
6 a treasury lock with a counterparty whereby, if interest rates increase prior to the
7 planned debt issuance, Berkshire would be entitled to receive a payment based
8 upon the difference between the actual treasury rate and the “lock rate.” These
9 types of transactions involve the selection of a specific treasury reference and a
10 planned debt “issuance date.” The issuance date also becomes the “settlement
11 date” for the treasury lock transaction. At the time of this transaction, the lock
12 rate is based upon the then current treasury rate for the maturity being
13 considered by the Company. At the settlement date, which would also be the
14 date at which Berkshire would issue a long term debt security, a payment is
15 made based upon the difference between the lock rate and the treasury rate as
16 of that date. A payment would be made to Berkshire if rates increase from the
17 transaction date. Conversely, Berkshire would make a comparable payment to
18 the counterparty if rates decrease. Current accounting rules for such
19 transactions allow the gain or loss from this transaction to be amortized over the
20 life of the bond or note, with the effective reduction or increase in the cost of
21 debt.

22

1 **Q. What limits will the Company follow in terms of such rate locks.**

2 A. Importantly, the Company will not employ these instruments for speculative
3 purposes. The Company will only execute such transactions to lock in a lower
4 rate and eliminate the “floating” rate exposure. All such derivative activity will be
5 disclosed consistent with the requirements of relevant authorities such as the
6 SEC and the Financial Accounting Standards Board and will be performed in a
7 manner consistent with the Company’s Derivative Policy provided in Schedule
8 KLZ-10. The Company will only execute rate lock transactions with
9 counterparties which have an unsecured senior debt rating (or which have a
10 parent entity with such a rating) of A or better as published by Standard and
11 Poor’s Ratings Group (or an equivalent rating from Moody’s Investors Service).
12 Finally, while the express Department approval under Section 14 of Chapter 164
13 of the General Laws may not be required in connection with the execution of an
14 interest rate lock transaction with a term for less than one year, the Company will
15 abide by any limitations imposed by the Department in this proceeding.

16 **Q. Why is this component of the Company’s financing plan reasonable and**
17 **appropriate.**

18 A. As a general matter, the ability to mitigate “floating” rate exposure benefits
19 customers and the Company. The Company will be able to better manage and
20 reduce interest costs directly benefiting customers. In addition, Berkshire is
21 subject to an additional measure that aligns the Company’s incentive structure
22 with the interest of its customers. Namely, the PCM Plan has created a strong
23 incentive for Berkshire to manage costs of all types. Berkshire’s ability to agree

1 to a lengthy rate freeze and the long-term price cap component of the PCM Plan
2 depending upon maintaining the flexibility to pursue a wide range cost savings
3 measures including rate lock transactions.

4 **Q. Please describe Schedule KLZ-11.**

5 A. Schedule KLZ-11 provides the vote taken by the Board of Directors of the
6 Company pursuant to a Unanimous Written Consent dated August 14, 2003
7 relating to this Petition. Cheryl M. Clark, the Clerk of the Company, has certified
8 this vote.

9 **Q. What is the Company requesting in this petition?**

10 A. Berkshire has requested that the Department issue an order at this time
11 authorizing the issuance and sale by the Company from time to time through
12 January 31, 2007 of long-term debt securities in an aggregate amount not to
13 exceed \$20,000,000. Issuances made pursuant to the plan will consist of one or
14 more series of Notes or Term Loans, with such maturities and at a fixed rate of
15 interest not to exceed an effective rate of 12% per annum or adjustable rates
16 which will vary in accordance with a market index designated at the time of
17 issuance or in accordance with a market auction mechanism with a maximum
18 rate which will not exceed 18% per annum. Further, if the price of any long-term
19 debt securities is below the face amount of such long-term debt securities, the
20 DTE shall find that the issuance and sale is in the public interest and fix the
21 amortization of the discount, over the life of the security.

22 The Company requests that the Department's order grant an exemption from the
23 requirements of Section 15A of Chapter 164 and from all of the competitive

1 bidding and other requirements in Section 15 of Chapter 164 in connection with
2 the sale of any long-term debt securities.

3 The Company requests that the Department's order authorize that the net
4 proceeds from the issue and sale of such securities be used: (a) for the payment
5 at maturity of certain outstanding long-term indebtedness and equity securities;
6 (b) for the payment of capital expenditures for properly capitalizable additions to
7 property, plant and equipment, or for the payment of obligations of the Company
8 incurred for such expenditures; (c) for the refinancing of short-term and long-term
9 securities; (d) for general working capital purposes; and/or (e) for such other
10 purposes as the Department may authorize. Finally, the Company requests that
11 the Department take any such additional action as may be necessary and
12 appropriate, including the approval of the Company's plan to employ transactions
13 such as interest rate locks.

14 **Q. Ms. Zink, in view of your detailed knowledge of the Company and its**
15 **finances, is it your opinion that the proposed issuance of not in excess of**
16 **\$20,000,000 aggregate amount of securities is reasonably necessary for the**
17 **purposes which you have stated and is in the public interest?**

18 A. Yes, it is.

19 **Q. Does this conclude your testimony?**

20 A. Yes it does.

The Berkshire Gas Company

D.T.E. 03-_____

List of Schedules to the Testimony of Karen L. Zink

<u>Reference</u>	<u>Description</u>
KLZ-1	Balance Sheet for the Company dated June 30, 2003
KLZ-2	Company's Schedule of Capital Stock and Premium as of June 30, 2003
KLZ-3	Statement of the Company's Long-Term Debt as of June 30, 2003
KLZ-4	Capitalization Ratios Based Upon the June 30, 2003 Balance Sheet
KLZ-5	Net Plant Analysis at June 30, 2003
KLZ-5a	Net Plant Analysis at March 31, 2003
KLZ-6	Forecast of the Proposed Use of Proceeds through 2006
KLZ-7	Pro-Forma Capital Structure Reflecting the Issuance of \$20,000,000 of Debt Securities
KLZ-8	Yield History from July 1995 through June 2003 for the 30-Year U.S. Treasury and also for Long-Term Debt Issues for Gas Utilities with "A" Rating
KLZ-9	Analysis of Standard & Poor's Benchmarks
KLZ-10	Derivative Policy
KLZ-11	Certified Vote taken by the Board of Directors of the Company pursuant to a Unanimous Written Consent dated August 14, 2003